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DDI- 02300-86

7 MAY 1986

MEMORANDUM FOR: Director of Central Intelligence

VIA: Deputy Director of Central Intelligence
Deputy Director for Intelligence *RK*

FROM: [REDACTED]
Chief, Philippine Task Force

SUBJECT: Report of the Philippine Task Force

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1. Action Requested. For your review. The report on the longer term problems and prospects of the Philippines was to be delivered to you in early May. [REDACTED]

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2. Background. In late December you requested an inter-office, analytical task force to look at the "forces for change" in the Philippines over the next four to five years. Despite the revolutionary change of government that occurred in the Philippines in February, the fundamental pressures and problems that would have faced Marcos--or any Philippine leader--remain largely unaltered. We believe these pressures make the Philippines a subject of continuing concern to US policymakers, intelligence collectors, and analysts. [REDACTED]

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3. The attached report represents the work of five officers from the DI and one from the DO. The report has been read by key officers in the DI, DO, and the NIC, but the judgments are solely the responsibility of the Task Force. [REDACTED]

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Attachment:
As stated



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SUBJECT: Report of the Philippine Task Force

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The Philippines: Still Cause for Concern



Report of the DCI
Philippine Task Force
May 1986

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THE PHILIPPINES: STILL CAUSE FOR CONCERN

PREFACE

This report is the result of a four-month, DCI-commissioned investigation into the underlying forces that are changing the Philippines in ways critical for US interests. The report represents our judgments about the pressures the Philippines faces, how the country will evolve through at least 1990, what this evolution means for US security and economic interests, and what key intelligence gaps exist that demand the attention of collectors, analysts, and policymakers.

Midway through the Task Force effort, the government of the Philippines changed dramatically. In our judgment, that change did not eliminate the underlying political, economic, demographic, social, and insurgent pressures.

The Task Force recognized the necessity for an extensive research agenda. This report represents the results of more traditional standard research drawing on intelligence reports and other documents, but more importantly, it reflects information gathered directly from over 275 experts we consulted in the United States and the Philippines, a number of whom had no previous contact with the intelligence community.

The Task Force also used other research strategies. These include a narrowly-focused conference of academic experts held the week after Marcos' downfall, special analytical work commissioned to the Office of Global issues and the Analytical Support Group of the DI, several professionally-run gaming exercises that brought collectors, analysts, and US policymakers face-to-face to tackle longer-term Philippine issues, and a set of public opinion polls administered in the Philippines before and after the change of government.

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THE PHILIPPINES: STILL CAUSE FOR CONCERN

EXECUTIVE SUMMARY

In our judgment, the chances are only slightly better than even that a stable democratic government will evolve in the Philippines over the next several years and that US security and economic interests will be largely preserved. We base this judgment on the diverse but centrist cast of the Aquino government, the high level of political and technical skills represented by most, though not all, of her cabinet and close advisers, the moderating influence of the Church and the military, the nearly unqualified support Mrs. Aquino has from most Filipinos who want her government to succeed, and the favorable relationship that is emerging with the United States.

Nonetheless, the euphoria that has accompanied the departure of Ferdinand Marcos masks chronic problems -- and potential dangers to US interests -- through the next several years. We are not confident that the new Aquino administration will be able to articulate clearcut policy directions, engineer sustainable economic growth, reform military and government institutions, and turn around the Communist insurgency quickly enough to enable US policymakers to downgrade significantly their concern for the Philippines. We believe that the Philippines will require substantial and sustained attention

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The United States has new opportunities to preserve its political, economic, and security interests in the Philippines. While nascent, the Aquino government is substantially more receptive than was the Marcos administration to the policies needed to foster political stability, economic growth, military reform, and control the insurgency. From the US perspective, changes will take place frustratingly slowly amid loud and sometimes threatening rhetoric from both the left and the right, require substantial US economic aid, and frequently appear at odds with US goals. US-Philippine relations will have to be balanced delicately between US interests and resources, and the Philippines' control over the pace and priorities of the relationship. For example, we expect negotiations on the bases agreement to be marked by hard bargaining as the Aquino government tries to get the best deal for what it views as a national resource, and to be filled with nationalistic rhetoric as the principle of US access to the bases is debated by the new government. Overall, however, we also expect Manila to bargain in good faith.

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The Political Future

The Strengths... We see a somewhat better than even chance that political stability will characterize the Philippines over the next five years and more, during which power is attained and transferred by constitutional and mostly democratic processes. Although political activity is likely to remain at a fever pitch, frequently exhibiting signs of distress, we expect an evolution to a healthy competitive electoral system. Our guarded optimism is founded in the strength of Filipino commitment to good government and in the generally positive features we observe in the actors involved.

- o Filipinos have a widespread belief in and commitment to democracy.
- o Revulsion against the Marcos legacy has forged common goals for social justice, political freedom, and economic welfare.
- o Filipinos describe themselves as patient people and say they will give President Aquino considerable time for her political honeymoon.
- o A broad convergence toward the political center has isolated Communists at the fringe and increased the likelihood that mainstream coalition politics, while often contentious, can work.
- o Despite its unorthodox arrival, the legitimacy of Mrs. Aquino's government is accepted by most Filipinos.
- o The military is moving toward self-healing and reconciliation with the civilian sectors and the Church. With its reformist majority at the fore, the military is well-positioned as a force for moderation.
- o Politically invigorated institutions -- Church groups, NAMFREL, the media -- suggest that the government will operate under a spotlight of watchdog organizations.

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...and Vulnerabilities. The political strengths with which Manila faces the future are but one side of the ledger. While we think the Philippines can and likely will stabilize in ways that complement US interests, we believe policymakers should be concerned about the substantial downside risks.

- o The government could become split and paralyzed as divisions and competition within the ruling coalition clash with traditional Philippine patron-client politics. Signals of a rudderless government are already emerging.
- o Aquino may be too serene in her ultimate reliance on people power, which with its undertones of anarchy can become a dangerous source of authority.
- o Reformists within the military may conclude that Mrs. Aquino's efforts to incorporate the left in her coalition and strike deals with the insurgents -- especially if it means an impotent counterinsurgency program -- are naive and dangerous.
- o The rebirth of the labor movement may be accompanied by a rising number of strikes that will hinder economic recovery, frighten foreign investors, and provide easy entry into labor unions by Communist organizers.
- o Communist groups, currently in some disarray, may turn to terrorism or economic sabotage; at the least, the CPP/NDF may use the new, open political climate and local elections as the first steps in a program to eventually wrest control of the government from the moderates.

The Economy and Society

The Aquino government recognizes that its survival depends critically on its ability to deliver tangible economic benefits throughout all sectors of society. The change of government has eased but not eliminated the fundamental economic and social problems of the Philippines that feed the Communist insurgency. The economy has deteriorated in recent years; GNP has declined by

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15 percent since 1981; government services are unable to meet demands in education, health, and other basic needs. Despite a massive budget deficit, popular expectations for jobs, schools, hospitals, and infrastructure are now high. These problems are most severe in rural areas -- many that have been without an effective government presence for years -- which have become fertile breeding grounds for the insurgency.

In the short run, the dismantling of Marcos' crony economic system, as some of Mrs. Aquino's advisers and foreign creditors recommend, combined with political confidence, would likely lead to a robust economic rebound next year, with as much as a six-percent gain in national output. We are concerned, however, that foreign and domestic bankers and businessmen are adopting a "wait and see" stance before committing to new investments.

The longer term economic outlook is not optimistic; the problems Manila faces are sobering. Analysts see little likelihood of a turnaround in world prices for traditional agricultural, mineral, and semi-manufactured goods that would boost export growth and help close the foreign exchange gap of \$1 billion annually -- including approximately \$4 billion a year in debt service -- that we project through 1990. The Philippines has some potential for broadening its base of agricultural production and export and for developing light manufacturing industries, but does not have the resources, motivation, or world economic environment to become another South Korean or Taiwanese economic miracle.

Under very favorable economic and political circumstances, the Philippine economy may achieve annual growth rates of five to six percent by 1990. Such growth will go a long way toward strengthening the government's position and undermining the appeal of the Communist Party of the Philippines (CPP) and its military arm, the New People's Army (NPA), but even so, by 1990 living standards will still fall short of levels achieved in the early 1980s. The economy will have to expand by about five percent annually and invest heavily in efficient but labor-intensive activities to create the 700,000-800,000 jobs that must be added each year just to absorb new labor force entrants and prevent further erosion of living standards. In addition, even with favorable overall growth, the rural economy is likely to lag because of the time it will take to boost agricultural productivity, develop rural-based processing industries, and rehabilitate and expand infrastructure.

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Demographics is working against the Philippines and shows no signs of easing. The population is growing nearly 2.8 percent annually, adding 1.6 million people each year. The age structure of the population is also a concern. For the next decade, approximately 20 percent of the population will be between the age of 15 and 24. This "youth bulge" not only demands jobs, but also puts especially destabilizing political and social stress on the country. Moreover, over 40 percent -- 25 million persons this year and growing rapidly -- are in the under-15 age group.

The Insurgency

The insurgency itself has been weakened by Marcos' departure, but in our judgment will not wither on its own. Marcos' removal without violence and without the intervention of radical leftists belied CPP/NPA propaganda that only a peoples' armed struggle could bring him down, an outcome that may lead Filipinos to question other CPP/NPA propaganda as well. CPP leaders recognize that they made serious mistakes in boycotting the February presidential election and failing to anticipate the "people power" revolution. In the view of many observers -- the skeptical Armed Forces of the Philippines (AFP) is an exception -- Mrs. Aquino is making the right moves to emasculate the NPA through her release of detainees, offers of amnesty, and disarming of the abusive Civilian Home Defense Forces. Her efforts are reinforced by the strengthening of moderate elements in the Church, redirection of Church leftists toward cooperation with the government, and prospects for reconciliation of the military with the civilian population.

Nonetheless, the hardcore of insurgents apparently remain committed to the violent overthrow of the Philippine government and its replacement with a Communist state. CPP/NPA leaders are smart and dedicated, and the insurgency has a number of factors in its favor:

- o Well-conceived guerrilla tactics and organization.
- o A presence throughout most of the country.
- o An acceptance by local inhabitants as the de facto authority in many areas.
- o A growing segment of the population that is exposed and susceptible to radical propaganda.

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In our judgment, the insurgency will go through a phase of retrenchment and rebuilding in search of tactical changes required to undermine the government of Mrs. Aquino. Ironically, democracy gives the Communists' sophisticated propaganda apparatus better access to the Philippine populace through the media and the education system. The Party now also has the chance to participate -- probably covertly through front organizations -- in the local elections that will follow the adoption of a new Constitution later this year or in early 1987. We also see the likelihood of frequent well-publicized bargaining over ceasefires as a smokescreen for continuing violence in the countryside aimed at undermining political, economic, and social gains the Aquino government may make.

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We cannot discount the Communists' resorting to increased violence. At the least, the CPP/NPA leadership will be tempted to experiment with alternative tactics. Up to now, moderates in the CPP have successfully argued that the use of indiscriminate terror and violence, attacks on US citizens, and bringing the war to urban areas are counterproductive. According to several insurgency analysts, the CPP/NPA might decide to turn its typical strategy of eliminating corrupt local officials on its head by targetting selected officials who are seen to be honest and effective, while preserving for propaganda those who are corrupt and malfeasant -- a strategy that insurgents adopted, for example, in Vietnam and in El Salvador.

An especially dangerous move to the Aquino government would be if the CPP/NPA decided to forego its sense of nationalist independence and opted to seek substantial aid from the Soviet Union and others. So far, the NPA has relied for its finances on extensive taxation of Filipinos and local businesses and, less so, on some funding from foreign sources, including private and Church groups in the United States.

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Most NPA weapons are captured from the Philippine military or purchased from the local arms market.

The CPP/NPA's relative autonomy could change. The CPP has made no secret of its admiration for the Cuban and Sandinista revolutions, and some CPP officials have been publicly linked with Cuban and Nicaraguan Communist groups. Two recent developments concern us:

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- o Some evidence exists of newly established avenues for laundering CPP funds through banks in Hong Kong.

- o [] reports that 5,000 weapons of unknown origin were delivered to Manila for the NPA late last year. Furthermore, other reports indicate that several NPA front groups have recently taken delivery of new automatic weapons.

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We lack specific evidence of Soviet -- or Vietnamese -- military support to the NPA, but we cannot dismiss the likelihood that these countries would mount a supply effort if requested by the CPP/NPA leaders.

While the prospect for violence could increase as the CPP/NPA attempts to reassert itself, we doubt whether a stronger NPA would engage in Khmer-Rouge-style tactics to consolidate power. The NPA is, indeed, violent, and much of the bloodshed that takes place in the countryside goes unreported. Nonetheless, there are differences between the two Communist groups that should moderate Khmer-Rouge style moves:

- o The CPP/NPA represents a broad cross-section of Philippine society. Nothing in the CPP's strategy suggests that its goal is a leveling of Philippine society upon a rural denominator.
- o Philippine culture is family-oriented. Wholesale killing would quickly put the Communists face-to-face with family members.
- o Khmer Rouge excesses were made easier by the massive violence, destruction, and economic and social dislocation already inflicted on Cambodia by all sides in the Vietnam War, conditions that are not likely to be replicated in the Philippines.
- o The insurgents are small in number compared with a Philippine population that is fundamentally anti-Communist. The insurgents would have difficulty mounting Khmer-Rouge-style terror throughout the multi-island nation, though they may be able to rain terror on one or more isolated islands.

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We cannot dismiss, however, a worst case scenario in which the threat of wholesale violence would be real. A combination of an increasing rural bias to the insurgent leadership, the collapse of the military effectiveness of the Philippine forces, a deep global recession that left the Philippines bankrupt and hungry, and universal abandonment of confidence in the Manila-based government and other basic institutions could portend a wave of violence and terror.

US Opportunities

In addition to providing traditional -- and vitally needed -- economic and military aid, the United States has a number of practical opportunities to influence the longer-term stability of the Philippines and to encourage the government to adhere to democratic principles. Philippine officials expressed several key areas of concern:

- o A deteriorating education system.
- o Aid that specifically addresses the social and economic problems of the youth.
- o Recognizing, analyzing, and countering the highly effective Communist propaganda system, and specifically its anti-US themes.
- o Infrequent interchanges between the US and Philippine professional military.
- o Inadequate counterinsurgency intelligence.
- o Aid to specific components of the economy, such as finance and banking, transportation, food processing and post-harvest storage, village water supplies, reforestation, and agricultural production services.

Significant downside risks accompany US economic and military aid programs. The United States is probably going to be blamed for Philippine problems if it does too much, or if it does too little. Primarily, the Philippines will be looking for a visibly less-dependent relationship with the United States, in which Manila receives large aid levels, but not advice on its

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use. Moreover, US budget difficulties mean that over the next several years Manila's expectations for aid flows are probably not going to be met. In some areas -- including foreign debt relief and increased access to US markets -- the United States will face competing demands from other countries including Mexico and the Caribbean Basin nations. Furthermore, an increased US presence associated with aid programs could stimulate retaliation against US citizens by the CPP/NPA.

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